

PROTECTED AREAS NETWORK FUND  
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Protected Areas Network Fund:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Protected Areas Network Fund as of September 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of PAN Fund's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017 on our consideration of PAN Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAN Fund's internal control over financial reporting and compliance.

*Deloitte & Touche LLC*

January 23, 2017



## Protected Areas Network Fund

PRA Bldg #202 | P.O. Box 6094, Koror, Palau 96940  
Phone: (680) 488-FUND (3863) | Direct: (680) 488-1313  
Fax: (680) 488-1314 | Website: [www.palaupanfund.org](http://www.palaupanfund.org)

### Management's Discussion and Analysis Year Ended September 30, 2016

This report presents a management's discussion and analysis of the Protected Areas Network Fund's (PAN Fund) financial performance during the fiscal year ended September 30, 2016, with selected comparative information for the fiscal years ended September 30, 2015 and 2014.

#### ORGANIZATION AND PURPOSE

Republic of Palau Public Law (RPPL) 6-39 (the PAN Act) established a national system of support from the National Government of Palau to the States for its conservation programs to preserve, conserve and manage its natural resources and ecological biodiversity. RPPL 7-42 was then enacted creating a national financial mechanism for the PAN and PAN Fund. PAN Fund is a registered non-profit corporation governed by a nine-member Board of Directors appointed by the initial four-member incorporators; namely The Nature Conservancy (TNC), Conservation International (CI), the Ministry of Natural Resources, Environment and Tourism (MNRET) and the Ministry of Finance (MOF) with advice and consent of the Senate of the Olbiil Era Kelulau (OEK-Palau National Congress). The Board of Directors' major responsibilities include governance, fiduciary and grant-making.

The purpose of PAN Fund is to serve as a financial trustee corporation for the "green fee" and for all monies received for the PAN, to support and finance PAN projects and programs thus administering, managing, fundraising, investing, monitoring and disbursing PAN monies for the financial sustainability of the PAN in Palau for conservation of ecological biodiversity and sustainable management and use of its natural resources.

The mission of PAN Fund is to "efficiently and equitably provide funding to the Protected Areas Network, and its associated activities, through strategic actions and medium- to long-term financial support that will advance effective management and conservation of Palau's natural and cultural resources." The types of funds administered, managed and invested by PAN Fund as the financial trustee corporation to the PAN include the environmental protection fee, donations, grants and income and other property derived from or attributable to the investment. The "green fee" or environmental impact fee allocation and distribution to the PAN Member States are prioritized based on annual work plans as per management plans to effectively implement each respective conservation program. The "green fee" is disbursed quarterly and is subject to verification of activities and program implementation.

#### OVERVIEW OF FINANCIAL STATEMENTS

##### Statements of Net Position:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 3,032,023	\$ 3,069,329	\$ 2,734,591
Capital assets	<u>12,590</u>	<u>16,739</u>	<u>19,122</u>
Total assets	<u>3,044,613</u>	<u>3,086,068</u>	<u>2,753,713</u>
Current liabilities	<u>104,425</u>	<u>319,677</u>	<u>219,013</u>
Net position:			
Net investment in capital assets	12,590	16,739	19,122
Restricted	<u>2,927,598</u>	<u>2,749,652</u>	<u>2,515,578</u>
Total net position	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>	\$ <u>2,534,700</u>

## OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

### **Statements of Revenues, Expenses and Changes in Net Position:**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	<u>1,837,479</u>	<u>1,821,436</u>	<u>1,898,207</u>
Operating loss	(1,837,479)	(1,821,436)	(1,898,207)
Nonoperating revenues	<u>2,011,276</u>	<u>2,053,127</u>	<u>1,909,126</u>
Change in net position	173,797	231,691	10,919
Net position at beginning of year	<u>2,766,391</u>	<u>2,534,700</u>	<u>2,523,781</u>
Net position at end of year	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>	\$ <u>2,534,700</u>

### **Statements of Cash Flows:**

Cash flows from operating activities	\$ (2,047,906)	\$ (1,677,933)	\$ (1,803,276)
Cash flows from noncapital financing activities	2,011,276	2,013,651	2,416,798
Cash flows from capital financing activities	<u>-</u>	<u>(3,059)</u>	<u>(5,116)</u>
Net (decrease) increase in cash	(36,630)	332,659	608,406
Cash at beginning of year	<u>3,064,899</u>	<u>2,732,240</u>	<u>2,123,834</u>
Cash at end of year	\$ <u>3,028,269</u>	\$ <u>3,064,899</u>	\$ <u>2,732,240</u>

## FINANCIAL HIGHLIGHTS

PAN Fund's capital assets decreased by 25% from \$16,739 in fiscal year 2015 to \$12,590 in fiscal year 2016 and by 12% from \$19,122 in fiscal year 2014 to \$16,739 in fiscal year 2015. See note 3 to the financial statements for more detailed information on PAN Fund's capital assets and changes therein.

Total net position increased by 6% from \$2,766,391 in fiscal year 2015 to \$2,940,188 in fiscal year 2016 and by 9% from \$2,534,700 in fiscal year 2014 to \$2,766,391 in fiscal year 2015. The increase was largely due to increases in green fee collections.

Total liabilities decreased by 67% from \$319,677 in fiscal year 2015 to \$104,425 in fiscal year 2016 and increased by 46% from \$219,013 in fiscal year 2014 to \$319,677 in fiscal year 2015.

Total operating expenses increased by 0.9% from \$1,821,436 in fiscal year 2015 to \$1,837,479 in fiscal year 2016 and decreased by 4% from \$1,898,207 in fiscal year 2014 to \$1,821,436 in fiscal year 2015.

Green fee revenues for fiscal years 2016 and 2015 were \$2,000,000. This amount also represents the allowable green fee revenues that PAN Fund is eligible to receive from the ROP government. Green fee revenues increased by 6% from \$1,882,024 in fiscal year 2014 to \$2,000,000 in fiscal year 2015.

Net cash decreased by 1% from \$3,064,899 in fiscal year 2015 to \$3,028,269 in fiscal year 2016 and increased by 12% from \$2,732,240 in fiscal year 2014 to \$3,064,899 in fiscal year 2015. The net cash at the end of the year is inclusive of ROP's cash transfer in of green fee revenue of \$2,000,000; \$7,500 for audit expense reimbursement and encumbered funds allocated for fiscal year 2016 but pending disbursements.

## ECONOMIC OUTLOOK

Based on trending data provided by the Palau Visitors Authority, the number of visitors decreased by 16% in 2016 (138,408 compared to 164,931 in 2015) and increased by 32% in 2015 (164,931 compared to 125,338 in 2014).

## **ECONOMIC OUTLOOK, CONTINUED**

PAN Fund continues to rely heavily on environmental fees as the main source of revenue to finance PAN operations. This amount is currently capped at \$2 million. The amount of environmental fees per year is dependent on the number of visitors to Palau. The number of visitors is highly dependent on many factors. A simple change in aviation strategy can result in increases or decreases in the number of visitors, as well as any changes to the environmental fee structure.

PAN Fund is mindful of these factors and its implications on the main source of revenue for the PAN. PAN Fund has taken steps to mitigate risks associated with the environmental fee by adopting a comprehensive sustainable financing plan. Included in the financing plan is an annual budget allocation strategy whereby the budget for the subsequent fiscal year is based on realized environmental fee revenues for current year. Also included in the allocation strategy are allocations to an emergency fund, a reserve fund and an endowment fund to mitigate risks and buffer economic downturns and environmental impacts attributed to climate change (i.e., typhoons, tsunamis, rising sea levels, drought, etc.). PAN Fund is also actively exploring opportunities to further diversify its revenue streams and investments in an effort to create sustainable financing to support the PAN.

## **CONCLUDING SUMMARY**

The Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in PAN Fund's report on the audit of financial statements, which is dated June 17, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at [www.palauopa.org](http://www.palauopa.org).

PAN Fund continues to evolve with the application of adaptive management and is in sync with the evolution of the Protected Areas Network. As the financing mechanism for the Protected Areas Network, PAN Fund continues to improve its policies and procedures to better serve the network.

## **CONTACTING PAN FUND'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of PAN Fund's finances and to demonstrate PAN Fund's accountability for the money it receives. If you have questions about this report, or need additional information, please send inquiries via the Protected Areas Network Fund, P.O. Box 6094, Koror, Republic of Palau 96940, or contact the following: Phone: (680) 488-FUND (3863) | Fax: (680) 488-1314 | Email: [info@palaupanfund.org](mailto:info@palaupanfund.org).

PROTECTED AREAS NETWORK FUND

Statements of Net Position  
September 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 3,028,269	\$ 3,064,899
Prepaid expenses	<u>3,754</u>	<u>4,430</u>
Total current assets	3,032,023	3,069,329
Capital assets, net	<u>12,590</u>	<u>16,739</u>
	<u>\$ 3,044,613</u>	<u>\$ 3,086,068</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable	\$ -	\$ 215,139
Accrued expenses	4,425	6,361
Due to Micronesia Conservation Trust	<u>100,000</u>	<u>98,177</u>
Total liabilities	<u>104,425</u>	<u>319,677</u>
Commitment		
Net position:		
Net investment in capital assets	12,590	16,739
Restricted	<u>2,927,598</u>	<u>2,749,652</u>
Total net position	<u>2,940,188</u>	<u>2,766,391</u>
	<u>\$ 3,044,613</u>	<u>\$ 3,086,068</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ -	\$ -
Operating expenses:		
PAN site/states	1,155,407	1,169,122
PAN Institutional System	196,054	193,541
Special projects	160,615	68,741
Salaries and wages	127,304	105,624
Micronesia Conservation Trust contribution	100,000	98,177
Professional development	22,967	40,002
Rent	14,400	13,645
Communications	10,996	8,349
Employee benefits	8,728	6,714
Audit	7,500	7,500
Utilities	4,434	4,117
Depreciation	4,149	5,442
Advertisements	3,026	666
Outreach/awareness meetings	2,901	11,507
Repairs and maintenance	1,904	1,621
Professional fees	650	5,389
Grants	-	41,819
Competitive grant expense	-	23,486
Other	16,444	15,974
	<u>1,837,479</u>	<u>1,821,436</u>
Total operating expenses		
	<u>(1,837,479)</u>	<u>(1,821,436)</u>
Operating loss		
Nonoperating revenues:		
Transfer in from Republic of Palau	2,007,500	2,007,500
Grant revenue	-	43,400
Other income	3,776	2,227
	<u>2,011,276</u>	<u>2,053,127</u>
Total nonoperating revenues		
Change in net position	173,797	231,691
Net position at beginning of year	<u>2,766,391</u>	<u>2,534,700</u>
Net position at end of year	<u>\$ 2,940,188</u>	<u>\$ 2,766,391</u>

See accompanying notes to financial statements.



PROTECTED AREAS NETWORK FUND

Statements of Cash Flows  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Micronesia Conservation Trust contribution	\$ (98,177)	\$ (96,750)
Cash payments to PAN sites/states and institutional system	(1,559,030)	(1,160,094)
Cash payments to suppliers for goods and services	(258,781)	(314,801)
Cash payments to employees for services	<u>(131,918)</u>	<u>(106,288)</u>
Net cash used for operating activities	<u>(2,047,906)</u>	<u>(1,677,933)</u>
Cash flows from noncapital financing activities:		
Transfer in from Republic of Palau	2,007,500	1,968,024
Grant revenue	-	43,400
Other income	<u>3,776</u>	<u>2,227</u>
Net cash provided by noncapital financing activities	<u>2,011,276</u>	<u>2,013,651</u>
Cash flows from capital financing activities:		
Fixed asset acquisitions	<u>-</u>	<u>(3,059)</u>
Net cash used for capital financing activities	<u>-</u>	<u>(3,059)</u>
Net (decrease) increase in cash	(36,630)	332,659
Cash at beginning of year	<u>3,064,899</u>	<u>2,732,240</u>
Cash at end of year	<u>\$ 3,028,269</u>	<u>\$ 3,064,899</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,837,479)	\$ (1,821,436)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,149	5,442
(Increase) decrease in assets:		
Prepaid expenses	676	(2,079)
Increase (decrease) in liabilities:		
Accounts payable	(215,139)	135,040
Accrued expenses	(1,936)	3,673
Due to Micronesia Conservation Trust	<u>1,823</u>	<u>1,427</u>
Net cash used for operating activities	<u>\$(2,047,906)</u>	<u>\$(1,677,933)</u>
Supplemental disclosure of noncash transactions:		
Due to Republic of Palau offset against transfer in:		
Noncash transfer in from Republic of Palau	\$ -	\$ 39,476
Noncash decrease in due to Republic of Palau	<u>-</u>	<u>(39,476)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (1) Organization

The Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau (ROP), was formed on May 2, 2008, under the provisions of the Republic of Palau Public Law (RPPL) No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network (the PAN) in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The Law created a registered non-profit corporation under the ROP corporate registry managed by a Board of Directors, consisting of seven voting members and the ROP Minister of Finance and the ROP Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the Olbiil Era Kelulau (ROP National Congress). PAN Fund's non-profit corporate charter was issued on November 2, 2010 by ROP and operations formally launched on March 24, 2012 upon receiving tourist and visitor environmental protection and arrival fee (Green Fee) monies from the ROP Ministry of Finance (MOF).

RPPL 7-42 authorized MOF to implement Green Fees to be used for the purpose of the operation of the PAN and to be deposited into an account at the National Treasury. The ROP Minister of Finance shall subsequently transfer the funds collected to the PAN Fund. RPPL 9-15, passed into law on August 29, 2013 and effective for fiscal year 2014, reduced amounts transferred to the PAN Fund to 50% of Green Fees collected or \$2,000,000, whichever is less. During the years ended September 30, 2016 and 2015, MOF remitted \$2,000,000 for this purpose, which PAN Fund recorded as transfers in from ROP. PAN Fund recorded \$7,500 as transfers in from ROP for audit expense reimbursement for the years ended September 30, 2016 and 2015. The payables and transfers with ROP constitute all of PAN Fund's related party transactions, except for grants described in note 4.

Funds administered, managed and invested by PAN Fund as the financial trustee corporation of the PAN include:

- Green Fees from ROP which are used for general operations of the PAN. PAN Fund allocates five percent (5%) of Green Fees and any unallocated funds remaining at the end of each fiscal year in the Micronesia Conservation Trust (MCT) Endowment, net investment revenues from which are available for PAN Fund's exclusive use at a later time, pursuant to guidelines of MCT. PAN Fund recorded MCT contributions of \$100,000 and \$98,177 for the years ended September 30, 2016 and 2015, respectively. PAN Fund considers its ensuing year budget to be an allocation of funds and therefore has not recorded a liability to MCT for any unallocated funds at September 30, 2016 and 2015;
- Donations, grants and other aid given to PAN Fund; and
- Income and other property derived from or attributed to the investment or application of property.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (1) Organization, Continued

PAN Fund disburses all funding for:

- The implementation of PAN management, sustainable development and work plans for PAN sites based on performance, impact/outcome and appropriate management costs for the continuing sustainable operation of the PAN Fund. During the years ended September 30, 2016 and 2015, PAN Fund provided funding to PAN sites/states for mobilization and implementation of PAN work plan of \$1,155,407 and \$1,169,122, respectively, and is recorded as PAN sites/states expense in the accompanying statements of revenue, expenses and changes in net position. Additionally, PAN Fund provided technical assistance for PAN sites/states special projects of \$160,615 and \$68,741 for the years ended September 30, 2016 and 2015, respectively.
- The undertaking of necessary research and educational activities substantially related to carrying out the provisions of RPPL No. 7-42;
- The performance of any other functions that is necessary in order to carry out the purposes of RPPL No. 7-42 including the operation of the PAN Office. The PAN Office operates under the ROP Ministry of Natural Resources, Environment and Tourism. During the years ended September 30, 2016 and 2015, PAN Fund provided funding for activities specified in an annual work plan of PAN Office in the amounts of \$196,054 and \$193,541, respectively; and
- Emergency funding to help PAN sites address exceptional needs arising from natural disasters or accidents.

PAN Fund's financial statements are incorporated into the financial statements of ROP as a component unit.

### (2) Summary of Significant Accounting Policies

The accounting policies of PAN Fund conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. PAN Fund utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (2) Summary of Significant Accounting Policies, Continued

#### Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net position. Proprietary fund operating statements reflect increases and decreases in net total assets and utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

#### Budget and Appropriation

In each year's national government fiscal year budget, the Olbiil Era Kelulau shall authorize and appropriate all money collected through the environmental protection arrival fee which shall be used for the sole purpose of the operation of the Protected Areas Network including authorization and appropriation of no more than ten percent (10%) of such amount to be allocated to PAN Fund for reasonable administrative costs of operation of PAN Fund. Budgetary financial statements are not considered to be a disclosure requirement by management.

#### Cash

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash in bank. As of September 30, 2016 and 2015, cash was \$3,028,269 and \$3,064,899, respectively, and the corresponding bank balances were \$3,156,722 and \$3,136,579, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2016 and 2015, bank deposits of \$500,000 were FDIC insured. Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of a bank failure, PAN Fund's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. PAN Fund does not have a deposit policy for custodial credit risk.

#### Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$100.

#### Retirement Plan

On August 8, 2013, PAN Fund withdrew from the Palau Civil Service Pension Trust Fund (the Fund) as the Fund considers PAN Fund to be a non-profit, non-governmental organization, and to be exempt from participation in the Fund.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (2) Summary of Significant Accounting Policies, Continued

#### Net Position

PAN Fund's net position is classified as follows:

- Net investment in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of PAN Fund pursuant to those stipulations or that expire by the passage of time. PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42.
- Unrestricted: net position that is not subject to externally imposed stipulations. As PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42, PAN Fund does not have unrestricted net position at September 30, 2016 and 2015.

#### New Accounting Standards

During the year ended September 30, 2016, PAN Fund implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassification

Certain 2015 balances in the accompanying financial statements have been reclassified to conform to the 2016 presentation.

(3) Capital Assets

Capital assets of PAN Fund as of September 30, 2016 and 2015, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ -	\$ -	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		27,694	-	-	27,694
Less accumulated depreciation		<u>(10,955)</u>	<u>(4,149)</u>	<u>-</u>	<u>(15,104)</u>
		\$ <u>16,739</u>	\$ <u>(4,149)</u>	\$ <u>-</u>	\$ <u>12,590</u>
	Estimated Useful Lives	Balance at October 1, 2014	Additions	Deletions	Balance at September 30, 2015
Furniture, fixtures and equipment	3 years	\$ 19,234	\$ 3,059	\$ (1,599)	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		26,234	3,059	(1,599)	27,694
Less accumulated depreciation		<u>(7,112)</u>	<u>(5,442)</u>	<u>1,599</u>	<u>(10,955)</u>
		\$ <u>19,122</u>	\$ <u>(2,383)</u>	\$ <u>-</u>	\$ <u>16,739</u>

(4) Contributions

The Micronesia Challenge (MC) is a commitment by the Chief Executives of the Republic of Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, the U.S. Territory of Guam and the U.S. Commonwealth of the Northern Mariana Islands to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (4) Contributions, Continued

Micronesia Conservation Trust (MCT) is a non-profit trust corporation registered in the FSM whose mission is to support biodiversity conservation and related sustainable development of the people of Micronesia by providing long-term sustained funding opportunities, management and investment services. MCT holds MC assets in restricted endowment funds. During the years ended September 30, 2016, 2015, 2014, 2013 and 2012, PAN Fund contributed \$100,000, \$98,177, \$96,750, \$84,596 and \$1,400,000, respectively, to the MC endowment funds held by MCT. In previous years, ROP, The Nature Conservancy, Global Environmental Facility and Conservation International made contributions to MCT of \$400,000, \$2,000,000, \$1,684,848 and \$1,000,000, respectively, on Palau's behalf. PAN Fund has determined that investment income will not be available for use until total contributions plus investment income totals \$10,000,000, and thus PAN Fund has not recognized related investment income in the accompanying financial statements. At September 30, 2016 and 2015, the Palau portion of MC endowment funds held by MCT was \$8,959,917 and \$8,144,013, respectively.

In accordance with RPPL 7-42, to support network wide activities, PAN Fund and/or PAN Office have entered into grants with the Palau International Coral Reef Center (PICRC) and the Palau Conservation Society (PCS) in the amounts of \$50,000 and \$54,931, respectively. The grant to PICRC, a component unit of ROP, is for strengthening and streamlining technical assistance on ecological monitoring for PAN States/Sites. The grant to PCS is for support with enabling legislation and capacity building for effective management of conservation programs for PAN States/Sites. These grants were closed-out during fiscal year 2015. Accordingly, during the years ended September 30, 2016 and 2015, \$-0- and \$23,486, respectively, were disbursed for these grants which are recorded as competitive grant expense in the accompanying statements of revenues, expenses and changes in net position.

### (5) Commitment

PAN Fund leases office space in Koror, Palau. Total future minimum lease payment under this lease for the subsequent year ending September 30, 2017 is \$3,600.